

October 1, 2009

Board of Governors of the Federal Reserve System
Washington, DC 20551
Attention: Ms. Jennifer J. Johnson, Secretary

Re.: Truth in Lending, Proposed Rule, Docket No. R-1366

Dear Ms. Johnson:

Thank you for the opportunity to comment on the proposed new mortgage disclosures, contained in the proposed amendments to Regulation Z. I respectfully submit the following comments and recommendations.

By way of background, I proposed a one-page “Basic Facts About Your Mortgage Loan” form, accompanied by two pages of avuncular explanations of mortgage terms and concepts, in 2007. Federal Reserve Board staff members were kind enough to discuss this proposal with me, and to include it in the consumer testing they carried out. (I have also proposed a one-page overdraft form, which may be another valuable project.)

In General

Our goals are identical: presentation of key information about the loan commitment a borrower is making in clear, straightforward, useful, and brief fashion. I put more stress on answering the question: “Can I afford this loan?” In my view, this is definitely a more important question than “Is this the cheapest loan?” The cheapest loan, with the lowest combination of rate and fee, does me no good if I can’t afford it.

Specific Suggestions

1. Because I believe the most important question is “Can I Afford This Loan?”, I recommend that this should be included as a “Key Question.” The key information provided to borrowers should then correspondingly include:
 - (a) The borrower’s pre-tax monthly income used in underwriting the loan
 - (b) The estimated total loan payment, including principal, interest, property taxes, house insurance, and mortgage insurance premium (if any)

- (c) If the loan has adjustable features, what (b) is estimated to be when fully indexed
- (d) The initial and estimated future total monthly payment as a per cent of monthly income, i.e. (b) divided by (a); and also (c) divided by (a)
- 2. I think adding my “avuncular explanations,” or something like them, to the form should be considered. The Federal Reserve’s consumer testing got good results from these explanations, as discussed in the testing report accompanying the proposed rule.
- 3. I suggest that the information form would be more psychologically effective if signed by both the borrower and the organization approving the loan (not the loan broker, if any).
- 4. The key information form should supply a contact with phone number and e-mail address at the organization approving the loan, whom the borrower can call with questions about the information presented, which should always match the data used in underwriting the loan.
- 5. Finally and very importantly, if the information provided to the borrower matches the same items as used in underwriting and approving the loan, that should constitute a safe harbor for the lender with respect to the key information form.

Thank you for your consideration. It would be a pleasure to provide any other information which might be helpful.

Yours truly,

Alex J. Pollock
Resident Fellow
American Enterprise Institute
Washington, DC 20036

202-862-7190